

Welfare Improving Trade Policy for Cultural Diversity

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Abstract

The objective of this paper is to explore how the cultural diversity can be maintained when consumer's preference for cultural goods is expressed by habitual consumption. We construct a general equilibrium model with trade, in which habitual consumption is incorporated with love of variety specification. We assume that consumption habit for cultural goods is measured by past consumption. It is shown that (i) firm's short-run equilibrium output positively relates to its past production level as well as its past market share and (ii) the long-run equilibrium firm number depends on firm's past production level as well as the distribution of firm's market share in the previous period.

Keywords: Cultural goods, habitual consumption, protection,